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David L. Meier
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August 26, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D. C. 20554

In the Matter of:

Implementation of the Telecommunications Act of 1996;	)	
	)	CC Docket No. 96-150
Accounting Safeguards Under the Telecommunications Act of 1996	)	

Dear Mr. Caton:

Enclosed are an original and eleven copies plus two extra public copies of the Comments of Cincinnati Bell Telephone Company in the above referenced proceeding. A duplicate original copy of this letter and attached Comments is also provided. Please date stamp this as acknowledgment of its receipt and return it. Questions regarding these Comments may be directed to me at the above address or by telephone on (513) 397-1393.

Sincerely,

David L. Meier

David L. Meier

Enclosure

cc: International Transcription Services, Inc.
Ernestine Creech (paper and disk copy)

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

I. INTRODUCTION

Cincinnati Bell Telephone Company ("CBT"), an independent, mid-size local exchange carrier ("LEC"), submits these comments in response to the July 18, 1996 Notice of Proposed Rulemaking ("NPRM") in the above-captioned proceeding. Overall, the Commission seeks comment on what, if any, continuing or existing accounting safeguards are necessary to constrain inappropriate cost allocation and the potential for discrimination against new competitors in various markets.[1] The Commission is seeking comment on what accounting safeguards are required by the Telecommunications Act of 1996 ("Act") in a competitive market to protect subscribers of regulated services against the risk of being forced to "'foot the bill' for the carriers entry into, or continued participation in, competitive services, and to promote competition in new markets by preventing carriers from using their existing market power in local exchange services to obtain an anticompetitive advantage in

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[1] NPRM at ¶ 6.

those new markets the carriers seek to enter."[2] With the Commission's upcoming and related proceeding on access reform, current accounting safeguards and jurisdictional separations may be significantly restructured. The Commission also seeks comment on its proposed imposition of accounting safeguards for non-BOC local exchange carriers ("LECs"), such as CBT.

II. DISCUSSION

CBT submits that the Commission's apparent direction in this proceeding is inconsistent with the primary purpose of the Act, i.e., the creation of a truly competitive telecommunications market. In various state and federal proceedings, CBT has continuously stressed the need for regulatory symmetry in the creation of a competitive telecommunications market.[3] It is CBT's contention that no participant in the competitive telecommunications market should be given a competitive advantage over another as a result of asymmetrical regulation. Competitors should be competing based on product differentiation and quality of service, and one competitor should not be favored over another as a result of the regulatory treatment it receives. To the extent that the Commission proposes asymmetrical treatment of competitors, or imposes additional regulatory restraints on any or all participants, such proposals would be contrary to the purpose of creating a truly competitive market for telecommunications services.

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[2] NPRM at ¶ 4.

[3] See Comments of CBT, p. 42, *In the Matter of Implementation of Local Competition Provisions in the Telecommunications Act of 1996*, Docket No. 96-98, filed May 16, 1996; Comments of CBT, pp. 13-14, *In the Matter of Price Cap Performance Review for Local Exchange Carriers*, Docket No. 94-1, filed December 11, 1995.

Section III of the NPRM requests comment related to the accounting safeguards required by the services covered by Sections 271-276 of the Act. CBT submits that these provisions of the Act apply solely to the BOCs, and therefore, give the Commission no authority to apply additional accounting safeguards on non-BOC LECs. Congress specifically placed these provisions in Subtitle B of Title I of the Act, entitled "Special Provisions Concerning Bell Operating Companies," indicating their intention that these provisions apply solely to the BOCs. Therefore, the Commission is not required in this proceeding to institute any additional accounting safeguards for non-BOC LECs for services provided under these provisions of the Act. Indeed, CBT submits that existing safeguards are more than adequate and no additional safeguards are required. For those provisions which do apply to non-BOC LECs, such as Section 260 related to telemessaging service, CBT submits that existing accounting safeguards are more than adequate to prevent cross-subsidization between regulated and non-regulated transactions within a carrier or between a carrier and its affiliates.

The Act does not require, nor does any other reason exist, to further impair the limited flexibility available to small and mid-size LECs. To further limit CBT's flexibility to provide services on an integrated basis, (i.e., within the telephone operating company, if desired), would seriously compromise any opportunity to develop the economies of scope and scale necessary to compete with much larger new entrants, many of whom have financial and technological resources significantly greater than incumbent LECs.

CBT submits that imposition of additional regulatory requirements are antithetical to a truly competitive market. The Commission itself acknowledges that "incumbent local exchange carriers have implemented internal cost allocation systems to help ensure their compliance with these rules. Redesigning these internal systems to accommodate a fundamentally different cost allocation approach might impose substantial administrative and financial costs on the carriers."[4] CBT asserts that substantial additional costs are indeed likely to be incurred, and submits that costs associated with burdensome accounting requirements would be counterproductive to the introduction of competition and can no longer be economically justified or sustained.

The primary goal of the Act is to create a truly competitive market. In accomplishing this goal, the Commission should be reducing regulatory requirements rather than seeking areas in which it can impose additional requirements. This new competitive telecommunications market should work to set prices just as any competitive market does without specific and arbitrary accounting rules.

The Commission asserts in the NPRM that it is considering increased regulatory safeguards because of its fear that ratepayers for regulated services will be burdened with inappropriately allocated costs from nonregulated services provided by LECs. It is counter-intuitive to conclude that LECs will be able to raise prices based on inappropriately allocated costs, given the choices available to customers in a competitive market. Further, this concern and the Commission's proposed solution is inconsistent with the Commission's recent Interconnection Order, CC Docket No. 96-98, which requires specific pricing rules for resale, unbundling and interconnection based not on accounting or booked costs, but on forward looking economic costs.

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[4] NPRM at ¶ 13.

Many of the new entrants to the telecommunications market are large global or national corporations. The Commission has afforded significant regulatory flexibility, streamlined regulation or regulatory forbearance to these competitors. In order for small and mid-size LECs to compete with new carriers who have significant technical and financial resources, these LECs must be provided the same regulatory relief. Therefore, CBT reaffirms the need for revisions in the Commission's filing requirements[5], improvement in the Commission's processes[6], and for regulatory forbearance[7] outlined in its previous filings with the Commission. Of particular significance to this proceeding, the Commission should consider the following:

(1) Simplification of the Uniform System of Accounts;

(2) A more flexible Depreciation Prescription Process;

(3) Increase the threshold limits for filing CAMs and other reports to companies with $1 billion or more in revenues;

(4) Eliminate Form 495A (Forecast of Investment Usage) and Form 495B (Actual Usage of Investment); and

(5) Eliminate ARMIS reports 43-05, 43-06, and 43-07.

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[5] Comments of CBT, *In the Matter of Revision of Filing Requirements*, CC Docket No. 96-23, Filed April 8, 1996.

[6] Comments of CBT, *In the Matter of Improving Commission Processes*, CC Docket No.96-17, Filed March 15, 1996.

[7] See Letter filed with the Commission on June 24, 1996 by CBT in DA 96-798 and IAD 96-150.

CBT submits that a reduction in regulatory burdens does not mean a lack of accountability. Customers and competitors can still avail themselves of the complaint process, via the Commission or the courts, to challenge the behaviors of competitors. These safeguards provide sufficient protection, and overly burdensome reporting requirements are not necessary.

III. CONCLUSION

In today's competitive environment, the entity with the most reliable product and the ability to maintain the highest level of customer service possible will be successful. Businesses must be permitted to react to the competitive market in which they operate, unencumbered by inflexible accounting rules. As the telecommunications industry becomes increasingly competitive, carriers must be permitted to respond in creative ways to the demands of the market. Thus, it should be the market which regulates telecommunications providers in a competitive environment. Decreased regulation, combined with a minimal level of monitoring by the Commission will further the goal of allowing the market to regulate telecommunications providers in the new competitive environment. CBT respectfully requests the Commission to consider the positions raised by CBT as it reviews various regulatory burdens imposed on telecommunications providers.

Respectfully submitted,

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